

**THE FREEDOM ACADEMY FOUNDATION**

**FINANCIAL STATEMENTS  
AND OTHER REPORTS**

**Years Ended June 30, 2005 and 2004**

## TABLE OF CONTENTS

	Page
<b>INDEPENDENT AUDITOR'S REPORT</b>	1
<b>FINANCIAL STATEMENTS:</b>	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Notes to Financial Statements	5
<b>OTHER REPORTS:</b>	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	8
Independent Auditor's Report on Legal Compliance in Accordance with the <i>State of Utah Legal Compliance Audit Guide</i>	9
Letter to Management	10



## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
The Freedom Academy Foundation

We have audited the statements of financial position of The Freedom Academy Foundation (a nonprofit organization) as of June 30, 2005 and 2004, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of The Freedom Academy Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Freedom Academy Foundation as of June 30, 2005 and 2004 and the results of its activities and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 20, 2005 on our consideration of The Freedom Academy Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

*Squire & Company, PC*

July 20, 2005

**THE FREEDOM ACADEMY FOUNDATION**  
**STATEMENTS OF FINANCIAL POSITION**

June 30, 2005 and 2004

	2005	2004
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash	\$ 124,700	\$ 149,896
Investments	121,558	56,463
Accounts receivable:		
Federal	125,567	10,496
State	17,324	-
Prepaid rent	42,000	20,000
Total current assets	431,149	236,855
<b>Capital Assets:</b>		
Leasehold improvements	363,262	229,282
Equipment	96,442	77,100
Construction in progress	-	33,759
Accumulated depreciation	(125,599)	(47,425)
Net capital assets	334,105	292,716
Total assets	\$ 765,254	\$ 529,571
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 135	\$ 6,509
Accrued payroll and related benefits	149,240	71,154
Current portion of long-term obligations	3,956	3,822
Total current liabilities	153,331	81,485
<b>Long-Term Obligations, net of current portion</b>	204,655	208,455
Total liabilities	357,986	289,940
<b>Net Assets:</b>		
Unrestricted:		
Designated for capital assets, net of related liabilities	125,494	80,439
Undesignated	281,774	159,192
Total net assets	407,268	239,631
Total liabilities and net assets	\$ 765,254	\$ 529,571

The accompanying notes are an integral part of these financial statements.

**THE FREEDOM ACADEMY FOUNDATION**  
**STATEMENTS OF ACTIVITIES**

Years Ended June 30, 2005 and 2004

	2005	2004
<b>Unrestricted Net Assets</b>		
<b>Revenues and Support:</b>		
Federal	\$ 460,167	\$ 243,896
State	1,558,092	1,204,814
School lunch	45,161	19,586
Contributions	13,943	16,712
Student fees	6,432	2,913
Interest	2,142	975
Other revenue	9,106	9,160
Total revenues and support	2,095,043	1,498,056
<b>Expenses:</b>		
<b>Program Services (School):</b>		
Salaries	846,527	559,860
Employee benefits	316,801	120,520
Building rent	250,000	200,000
Supplies and materials	206,973	127,243
Equipment	110,158	109,792
Utilities and custodial	69,795	51,012
Professional and technical	22,931	38,493
Other	2,641	4,414
Total program services	1,825,826	1,211,334
<b>Supporting Services:</b>		
Management and general	78,666	30,264
Interest	21,996	16,827
Fundraising	918	-
Total supporting services	101,580	47,091
Total expenses	1,927,406	1,258,425
<b>Change in Net Assets</b>	167,637	239,631
<b>Net Assets at Beginning of Year</b>	239,631	-
<b>Net Assets at End of Year</b>	\$ 407,268	\$ 239,631

The accompanying notes are an integral part of these financial statements.

**THE FREEDOM ACADEMY FOUNDATION**  
**STATEMENTS OF CASH FLOWS**  
Years Ended June 30, 2005 and 2004

	2005	2004
<b>Cash Flows from Operating Activities:</b>		
Change in net assets	\$ 167,637	\$ 239,631
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	78,173	47,425
Loan fee	-	4,000
Increase in operating assets:		
Accounts receivable:		
Federal	(115,070)	(10,496)
State	(17,324)	-
Prepaid rent	(22,000)	(20,000)
Increase (decrease) in operating liabilities:		
Accounts payable	(6,375)	6,509
Payroll and related benefits payable	78,086	71,154
Total adjustments	(4,510)	98,592
Net cash provided by operating activities	163,127	338,223
<b>Cash Flows from Investing Activities:</b>		
Purchase of capital assets	(119,562)	(328,202)
Purchase of investments	(65,095)	(56,463)
Net cash used by investing activities	(184,657)	(384,665)
<b>Cash Flows from Financing Activities:</b>		
Proceeds from the issuance of debt	-	200,000
Principal payment of debt	(3,666)	(3,662)
Net cash provided (used) by financing activities	(3,666)	196,338
<b>Net Change in Cash</b>	(25,196)	149,896
<b>Cash at Beginning of Year</b>	149,896	-
<b>Cash at End of Year</b>	<u>\$ 124,700</u>	<u>\$ 149,896</u>

Supplemental Information:

The School paid \$21,996 and \$16,827 of interest and paid no income taxes during the years ended June 30, 2005 and 2004, respectively.

There were no noncash investing or financing activities during the year ended June 30, 2005. During the year ended June 30, 2004, the School entered into a capital lease to obtain a copy machine with a cost of \$11,939 and incurred additional debt of \$4,000 for a loan fee.

The accompanying notes are an integral part of these financial statements.

## THE FREEDOM ACADEMY FOUNDATION

### NOTES TO FINANCIAL STATEMENTS

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#### Note 1. Summary of Significant Accounting Policies

Organization and Activities – The Freedom Academy Foundation (the Academy) was incorporated on July 7, 2003, and is operated as a nonprofit organization involved in elementary education. The Freedom Academy Foundation currently operates one charter school in Provo, Utah, from kindergarten through sixth grade. These financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Income Taxes – The Academy has filed for exempt status from federal income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) and is waiting to receive a determination letter in this regard.

Capital Assets – The Academy's capital assets consist of purchased equipment and leasehold improvements. Assets valued at \$1,000 or more with a useful life greater than one year are capitalized and depreciated, using straight-line depreciation, over the following useful lives:

Equipment	5 years
Leasehold Improvements	5 years

Depreciation expense for the years ended June 30, 2005 and 2004 was \$78,173 and \$47,425, respectively.

Donated Services – No amounts have been reflected in the financial statements for donated services. However, many individuals volunteer their time and perform a variety of tasks that assist the Academy with specific programs, administration, and Board assignments.

Financial Statement Presentation – The Academy reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions.

Compensated Absences – Contracted employees of the Academy receive five sick days and three personal days for their contract period. Personal days not used during the year are paid out to employees each year. Sick days that are not used carry over to the subsequent contract year. For the years ended June 30, 2005 and 2004 accrued sick pay was \$8,342 and \$0, respectively.

Revenue Recognition – The principal source of operating funds for the Academy is derived from federal, state, and local funds. The Academy receives state and local funding based on the number of students enrolled in the Academy. Certain funds are received on a reimbursement basis and, accordingly, revenues are recognized when qualifying expenses have been incurred and all other grant requirements have been met.

## THE FREEDOM ACADEMY FOUNDATION

### NOTES TO FINANCIAL STATEMENTS

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#### Note 1. Summary of Significant Accounting Policies (Continued)

Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Allocation of Expenses – Directly identifiable expenses are charged to programs and supporting services. Management and general expenses include those expenses that are not directly identifiable with any specific function, but provide for the overall support and direction of the Academy.

Comparative Data – Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

#### Note 2. Cash and Investments

Cash is composed of checking and savings deposits. At June 30, 2005, the Academy's book balance of cash accounts totaled \$124,700 and the bank balance was \$215,289, \$100,000 of which was covered by federal depository insurance.

At June 30, 2005, the Academy had deposits in the Utah Public Treasurers' Investment Fund totaling \$121,558. This amount is classified as investments and is reported at fair value.

#### Note 3. Operating Lease

During 2004, the Academy entered into a five-year operating lease agreement for its classroom facilities requiring monthly payments of \$21,000. Building lease expense for the year ended June 30, 2005 totaled \$250,000. The lease will expire in August 2008. Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Annual Payments</u>
2006	\$ 259,350
2007	268,430
2008	277,822
2009	45,566
	<u>\$ 851,168</u>

Property taxes are not covered by the lease payments; and the Academy has the responsibility to pay all property taxes when they come due. The lease agreement grants a purchase option to the Academy. The option states the Academy may purchase the building for \$3,800,000 less \$1,000 for each year the Academy leases the building.

**THE FREEDOM ACADEMY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 4. Long-Term Obligations**

The Academy entered into a capital lease in 2004 to obtain equipment valued at \$11,939. The lease requires monthly payments of \$199, and the stated interest rate for the lease is zero percent.

During 2004, the Academy borrowed \$204,000 from the owner of the building that it leases to make leasehold improvements. The note carries an interest rate of 10%, monthly payments of \$1,790 and is due August 2008.

At June 30, 2005, future annual payments are as follows:

<u>Year Ending June 30,</u>	<u>Capital Lease</u>	<u>Note Payable</u>	<u>Total</u>
2006	\$ 2,388	\$ 1,568	\$ 3,956
2007	2,388	1,732	4,120
2008	2,388	1,914	4,302
2009	1,591	194,642	196,233
	<u>\$ 8,755</u>	<u>\$ 199,856</u>	<u>\$ 208,611</u>



Independent Auditor's Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed  
in Accordance With *Government Auditing Standards*

Board of Directors  
The Freedom Academy Foundation

We have audited the financial statements of The Freedom Academy Foundation as of and for the year ended June 30, 2005, and have issued our report thereon dated July 20, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered The Freedom Academy Foundation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of The Freedom Academy Foundation in a separate letter dated July 20, 2005.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether The Freedom Academy Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain instances of noncompliance that we have reported to management of The Freedom Academy Foundation in a separate letter dated July 20, 2005.

This report is intended solely for the information and use of the Board of Directors, management, and federal and state oversight agencies and is not intended to be, and should not be, used by anyone other than these specified users.

*Squire & Company, PC*

July 20, 2005



**Independent Auditor's Report on Legal Compliance in  
Accordance with the *State of Utah Legal Compliance Audit Guide***

Board of Directors  
The Freedom Academy Foundation

We have audited the financial statements of The Freedom Academy Foundation (the Academy) (a nonprofit organization) as of and for the year ended June 30, 2005, and have issued our report thereon dated July 20, 2005. As part of our audit, we have audited the Academy's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions applicable to its major state assistance program as required by the *State of Utah Legal Compliance Audit Guide* for the year ended June 30, 2005. The Academy received the following major state assistance program from the State of Utah (passed through the State Office of Education):

**Minimum School Program**

The management of the Academy is responsible for the Academy's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, The Freedom Academy Foundation complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to its major state assistance program for the year ended June 30, 2005.

*Squire & Company, PC*

July 20, 2005



## Letter to Management

July 20, 2005

Board of Directors  
The Freedom Academy Foundation

In planning and performing our audit of the financial statements of The Freedom Academy Foundation for the year ended June 30, 2005, we noted certain matters for your consideration. This letter summarizes our comments and suggestions regarding these matters. This letter does not affect our report dated July 20, 2005, on the financial statements of the Academy. Also, reportable conditions and material internal control weaknesses, if any, are included in our report dated July 20, 2005, in accordance with *Government Auditing Standards* and the *State of Utah Legal Compliance Audit Guide*.

### Prior-year comments

*Accounting for Restricted Funds* – We noted during the audit that the Academy did not account separately for the expenditure of restricted state and federal funds in its accounting system. We recommended the Academy modify its accounting system to track expenditures related to restricted programs.

*Compliance with State Funding Restrictions* – Due to the previous comment, it was difficult to determine if certain restricted state funds were spent entirely for the purpose outlined by the state. We invited Academy management to familiarize itself with the compliance requirements for all funding received and work with the state to ensure that the Academy is in compliance with the state's guidelines for charter school funding.

*Status of Prior-year Comments* – These matters are still being resolved by the Academy.

*Views of Responsible Officials* – For the 2005-2006 fiscal year the Academy hired employees who understand how to properly classify revenue and expenditures according to applicable restrictions. Additionally, the Academy will regularly review its financial statements to ensure proper classification.

### Current-year comments

*Corporate Registration Status* – We noted that the Academy's corporate registration with the Utah Department of Commerce has expired. We recommend this be corrected and timely renewals be made in the future.

*Views of Responsible Officials* – The Academy's corporate registration with Utah Department of Commerce will be renewed immediately.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with Academy's personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. We appreciated the assistance of Academy personnel during the audit.

*Squire & Company, PC*

Squire & Company, PC